

000420

To: Mr D Coombe
PP4

From: D Q Bryars
ISU
Ext 4963
6 November 1990

cc Mr Stephens - CE
Mr Bosson - ISU
Mr Fear - ISK

MATRIX CHURCHILL - IRAQ - OBSERVER ARTICLE 21 OCTOBER 1990

We discussed a couple of matters yesterday concerning the above exports and the cover which has been given to them.

2 On the question of the Observer article I do not feel that we should respond in any way to this as quite clearly any further information that is offered to the newspapers disclosing our involvement would, I feel, be misconstrued and misinterpreted to our detriment.

3 I give below a chronological sequence of events which led to my memo to Mr Weiss of the 13 September, a copy of which is attached for ease of reference. There is a slight "fine" mistake in the first quoted paragraph in that although I said that in March 1989 we received a £4m C application to replace the first 5 year contract, and that cover was approved "excluding" any Iraqi risk, in fact cover was approved "including" any Iraqi risk - the double protection of specifically excluding Iraqi risk was not imposed.

4 The story of our approvals for Matrix Churchill on their Chile business is as follows -

July 1988:
CST application received (C167) in respect of Industrial Cardio-C Chile. £5.2m with terms of payment over 5 years. Supply of machine tools. The goods were said to be for the buyer's own use and not on-sale!

October 1988:
Cover approved in respect of C167 at £6.55m. The buyer was classed creditworthy for the amount concerned and no security was required.

January 1989:
A further CST application (C168) was received in respect of the buyer for £7.4m. Again, the goods are machine tools and the terms are for 5 years. In this case, however, the goods are said not to be for the buyer's own use but for on-sale to FAO in General Establishment, Baghdad, Iraq. The goods would be delivered direct to Iraq and were told that the goods the subject of C167 were also going direct to Iraq, but in both cases payment would not be contingent upon delivery to Iraq. The FCC was contacted and we were told that Matrix Churchill

were under investigation by FCO and DTI regarding the question of whether their goods required an export licence. We were told that the expectation was that they would not and that we would be able to cover. The Customs & Excise were also contacted via the Investigation Unit concerning Matrix Churchill's goods and record of applying where necessary for export licences. We were advised that apart from one minor transgression Matrix Churchill were "clean" in all their dealings.

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February 1989:

We were told by Matrix Churchill that the goods the subject of C168 above would be paid for by an irrevocable letter of credit confirmed by Lloyds Bank and that cover was not required.

March 1989:

We received a short term application for £4m on 120 days bills of exchange which was designed to replace C167. In the light of the advice on the export licensing issue by FCO, DTI and Customs, plus the fact that the Department had already taken on a larger commitment on longer terms which this application was designed to replace, cover was approved without condition. C167 was cancelled. Although the broker had made comment that Matrix Churchill's goods "could" manufacture arms this was true of any machine tool and given the advice by FCO, DTI etc it was not felt necessary to specifically exclude any Iraqi risk. The approval did not acknowledge or make cover subject to the third country endorsement either, therefore it did not specifically cover any Iraqi risk.

August 1989:

We received a request to increase the CST cover to £6.5m as a result of a contraction of the shipping programme. At that time we were told that Cardoen would get paid in Iraqi dinars with which they would purchase Iraqi oil and the proceeds from the sale of that oil would be received by way of a confirmed irrevocable letter of credit. We at that stage refused the requested uplift, believing the £4m to be a sufficiently large commitment on this buyer and suggesting that any further payments should be the subject of an irrevocable letter of credit.

September 1989:

We were told by Birmingham RO that Matrix Churchill would be getting a confirmed irrevocable letter of credit for the increase.

5 One other point I should mention is that Mr Wild's letter to Mr R Crouch of the Department of Trade & Industry dated the 31 October 1990, makes reference in the annex to the effect that Matrix Churchill insured a £6.5m contract with a Chilean buyer in October 1988. This is not strictly true in that although such an approval was issued the business actually took place under a £4m short term credit limit issued in March 1989. I shall leave it to you as to whether you feel it necessary to amend this detail.

D Q BRYARS
DQS49.TII